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SENATE

REPORT
No. 724

AMENDING SECTION 5136 OF THE REVISED STATUTES, AS AMENDED, WITH RESPECT TO UNDERWRITING AND DEALING IN SECURITIES ISSUED BY THE CENTRAL BANK FOR COOPERATIVES

AUGUST 30 (legislative day, AUGUST 27), 1951—Ordered to be printed

Mr. MAYBANK, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. 2085]

The Committee on Banking and Currency, having considered a bill to further amend section 5136 of the Revised Statutes, as amended, with respect to underwriting and dealing in securities issued by the Central Bank for Cooperatives, report favorably a committee bill (S. 2085) and recommend that the bill do pass.

GENERAL STATEMENT

The purpose of this bill is to enable national banks and State member banks of the Federal Reserve System to receive compensation in the distribution of debentures issued by the Central Bank for Cooperatives.

At present national banks and State member banks can and do receive commissions from the issuers in connection with their participation in sales of Federal land bank bonds and Federal intermediate credit bank debentures, whether the purchases are made for their own account or for the account of customers. This is because securities of the Federal land banks and Federal intermediate credit banks are exempted by 12 U. S. C. 24 from the restrictions imposed by that section, and are likewise not subject to the requirements of the Investment Securities Regulation (12 C. F. R. 1.1-1.3) promulgated by the Comptroller of the Currency pursuant to 12 U. S. C. 24. The absence of a similar exemption for debentures of the Central Bank for Cooperatives has been construed as prohibiting national banks and State member banks from accepting such commissions with respect to Central Bank debentures purchased for the account of customers.

Accordingly, the Central Bank for Cooperatives, which made its first offering of debentures last year, has found itself in a less favorable position with respect to the marketing of its securities than the other Farm Credit institutions mentioned above.

The committee is informed by the Department of Agriculture that their experience in offerings of bonds of the Federal land banks and debentures of the Federal intermediate credit banks has demonstrated that substantial portions of all subscriptions have come from national banks and State member banks on behalf of their customers. The Department points out that it is essential, therefore, to have the assistance and cooperation of national banks and State member banks in the sale of Central Bank debentures in order to market successfully these securities. The Department feels that it is highly important that, before the next offering of Central Bank debentures, this group of institutions be placed in the same position with respect to commissions on sales of such debentures as they are in respect to commissions on sales of bonds and debentures of the Federal land banks and the Federal intermediate credit banks.

The committee is informed that the commissions paid in connection with the sale of bonds and debentures by institutions of the Farm Credit Administration are relatively small. On the initial issue of debentures sold by the Central Bank for Cooperatives, to all dealers who were permitted to accept a commission, the commission amounted to \$1.50 per \$1,000 of debentures sold or 0.05 percent per annum since the debentures were of 3-year term. The Treasury Department is consulted in connection with contemplated offerings of securities by institutions of the Farm Credit Administration, the consultation covering, among other things, the term of the issue, the interest rate, the offering price, and the commission to be paid for the distribution of the securities.

The legislation has been considered by the Treasury Department, the Board of Governors of the Federal Reserve System, and the Bureau of the Budget. None of these agencies have any objection to the amendment.

CHANGES IN EXISTING LAW IN COMPLIANCE WITH THE CORDON RULE

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

LAST SENTENCE OF PARAGRAPH 7 OF SECTION 5136 OF THE REVISED STATUTES, AS AMENDED (12 U. S. C. 24)

The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development *or the Central Bank for Cooperatives* which are at the time eligible for purchase by a national bank for its own account: *Provided*, That no association shall *at any one time* hold obligations issued by [said bank] *either of said banks* as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount, *with respect to each issuer*, exceeding [at any one time] 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund.